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Rising Japanese Trade Surplus Obscures Underlying Trends

Appearances can be deceiving. That seems to be at least one lesson from Japan's latest customs-clearance trade statistics, released July 13. The dollar-denominated trade surplus, which jumped 35.6 percent in the April-June period compared to a year earlier (see Tables), raised the uneasy sense in Tokyo and Washington that Japan's external imbalances are political dynamite that could explode at any time. The bilateral aspect of the problem — of particular concern during a presidential election year — was underscored by the 36.7 percent jump in the dollar surplus in Japan's trade with the United States. That was the fourth straight quarterly increase in the bilateral surplus compared with six consecutive quarterly gains in the worldwide dollar-denominated imbalance.

Closer examination of the quarterly figures, however, brings to mind an onion more than a bomb; peeling away successive layers leaves little of substance. The yen-denominated figures reflect the results of trimming away the outer layers. The difference in the representation of the dollar- versus the yen-denominated trade statistics corresponds to the approximate effects of currency movements. The yen appreciated between 5.1 percent (for imports) and 5.3 percent (for exports) in

Table 1: **Japan's Total Trade in Dollar Terms**

(in millions of dollars)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		$229,221	9.6%	$149,515	18.3%	$79,706
1988		264,917	15.6	187,354	25.3	77,563
1989		275,175	3.9	210,847	12.5	64,328
1990		286,948	4.3	234,799	11.4	52,149
1991		314,525	9.6	236,737	0.8	77,788
1990:	I	66,705	-2.2	54,383	6.3	12,322
	II	67,232	-0.5	53,954	5.2	13,278
	III	72,189	3.7	56,547	6.6	15,642
	IV	80,822	15.9	69,914	26.3	10,908
1991:	I	76,338	14.4	61,869	13.8	14,469
	II	73,992	10.1	56,283	4.3	17,709
	III	79,065	9.5	57,097	1.0	21,968
	IV	85,131	5.3	61,487	-12.1	23,644
1992:	I	82,444	8.0	57,429	-7.2	25,015
	II (p)	80,834	9.2	56,816	0.9	24,018

Table 2: **Japan's Total Trade in Yen Terms**

(in billions of yen)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		¥33,315	-5.6%	¥21,737	0.9%	¥11,578
1988		33,939	1.9	24,006	10.4	9,933
1989		37,823	11.4	28,979	20.7	8,844
1990		41,457	9.6	33,855	16.8	7,602
1991		42,360	2.2	31,900	-5.8	10,460
1990:	I	9,766	12.2	7,941	21.9	1,825
	II	10,449	13.3	8,392	19.9	2,057
	III	10,651	7.5	8,364	10.8	2,287
	IV	10,592	6.1	9,159	15.7	1,433
1991:	I	10,183	4.3	8,257	4.0	1,926
	II	10,225	-2.1	7,775	-7.4	2,450
	III	10,853	1.9	7,846	-6.2	3,007
	IV	11,099	4.8	8,023	-12.4	3,076
1992:	I	10,523	3.3	7,317	-11.4	3,206
	II (p)	10,608	3.7	7,467	-4.0	3,141

Table 3: **Japan's Trade with the United States in Dollar Terms**

(in millions of dollars)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		$83,580	3.9%	$31,491	8.4%	$52,090
1988		89,634	7.2	42,037	33.5	47,597
1989		93,189	4.0	48,246	14.8	44,943
1990		90,322	-3.1	52,369	8.5	37,954
1991		91,538	1.3	53,317	1.8	38,220
1990:	I	21,661	-4.7	12,753	9.9	8,908
	II	20,938	-9.0	12,861	6.6	8,077
	III	22,933	-4.9	12,729	2.1	10,204
	IV	24,790	6.2	14,025	15.7	10,765
1991:	I	22,311	3.0	13,268	4.0	9,043
	II	20,304	-3.0	13,464	4.7	6,840
	III	23,719	3.4	13,185	3.6	10,534
	IV	25,205	1.7	13,401	-4.4	11,804
1992:	I	22,771	2.1	13,528	2.0	9,243
	II (p)	22,106	8.9	12,759	-5.2	9,347

Table 4: **Japan's Trade with the United States in Yen Terms**

(in billions of yen)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1987		¥12,148	-10.4%	¥4,582	-6.8%	¥7,566
1988		11,487	-5.4	5,388	17.6	6,099
1989		12,816	11.6	6,632	23.1	6,184
1990		13,057	1.9	7,586	14.4	5,471
1991		12,324	-5.6	7,191	-5.2	5,133
1990:	I	3,171	9.4	1,862	26.0	1,309
	II	3,254	3.7	2,000	21.4	1,254
	III	3,384	-1.5	1,885	6.3	1,498
	IV	3,249	-2.8	1,838	6.1	1,411
1991:	I	2,977	-6.1	1,770	-4.9	1,207
	II	2,806	-13.8	1,860	-7.0	946
	III	3,255	-3.8	1,812	-3.9	1,443
	IV	3,287	1.2	1,749	-4.8	1,538
1992:	I	2,905	-2.4	1,725	-2.5	1,180
	II (p)	2,902	3.4	1,677	-9.8	1,225

the year from the second quarter of 1991. As a result, both imports and exports appear inflated in dollar terms, resulting in a scaling up of Japan's trade surplus as well.

Peeling away the exchange-rate effect still leaves a substantial onion, however. The overall yen-denominated imbalance grew 28.2 percent between the April-June periods of 1991 and 1992. More ominously from a foreign perspective, Japan's worldwide exports grew over the year, while imports declined. For U.S. economic policymakers, who have labored hard to increase access for American products in Japan, the drop in imports from the United States — by either the dollar or the yen measure — has to be particularly frustrating. The fact that the Japanese economy, by most accounts, was sinking deeper into a recession during the spring may explain the apparent weakness of imports. However, these trends would appear to support an argument often heard about the Japanese economy: faced with economic difficulties, Japanese firms reduce imports and expand exports in an effort to trade their way out of recession.

The inner core of the trade statistics onion reveals that this argument is not correct, at least for the April-June quarter. During this period Japanese exporters reacted in atypical fashion to the yen's appreciation. Rather than cutting their prices in yen — as they have done during past periods of upward pressure on the Japanese currency — and thereby raising the prices charged in dollars by less than the currency change, Japanese exporters did the reverse and increased prices in yen by nearly 2 percent compared to a year earlier. (Export pricing behavior has been the subject of intense political and academic controversy. For details, see *JEI Report* No. 43A, November 15, 1991.) Hence, the dollar-denominated quarterly export figure represented the cumulative effect of currency changes, price increases in yen terms and rises in the volume exported, the last of which came to 2.1 percent on a year-to-year basis. Put differently, more than three-quarters of the jump in dollar-denominated exports in the April-June period resulted from price rises reflecting both the cheaper dollar and the higher yen prices. In short, the decision of Japanese exporters to raise prices rather than try to maintain share in foreign markets made the dollar-denominated trade surplus worse than it otherwise would have been from the perspective of those hoping for a smaller imbalance.

In contrast to export prices, the cost of imports in yen terms fell almost 7 percent in the second quarter. As a result, the volume of imports rose 2.9 percent despite the lower dollar- and yen-denominated figures. Inasmuch as the increase in import volume exceeded the real increase in exports, the price-adjusted trade balance actually fell by 0.5 percent from its April-June 1991 level. Peeling away the onion's layers in this fashion results in Japan's apparently dramatic trade surplus increase disappearing entirely. Politicians on both sides of the Pacific will have to determine whether the trade surplus onion, if they choose to employ it as a grenade in subsequent bilateral disputes, might fall apart in their hands.

Douglas Ostrom

Foreign Direct Investment In Japan Jumps

Foreigners investing in real assets in Japan over the 12-month period ending March 31, 1992 set several new records, highlighting the increasing international importance of the Japanese economy as well as the growing interest among foreigners in penetrating Japanese markets. After taking a backseat to investors from the Netherlands in FY 1990, U.S. companies recaptured the title of top direct investors by more than doubling the amount of money they put into Japan in FY 1991. European direct investments as a group, however, continued to outpace those by Americans in both number of cases and value. The rapidly growing Japanese services sector apparently appeared far more lucrative to foreign investors in FY 1991 than the year before, a trend that likely will continue as the Japanese economy matures.

According to data compiled by the Ministry of Finance, foreigners poured more than $4.3 billion into new Japanese direct holdings in FY 1991, easily setting a record (see Table 1). Net direct

Table 1: **Trends in Foreign Direct Investment in Japan, FY 1951-FY 1991**

(number of cases and millions of dollars)

Fiscal Year	Equity Capital		Loans and Bonds		Total		Direct Investment Liabilities*
	Cases	Amount	Cases	Amount	Cases	Amount	
1951-80	8,826	$2,979	n.a.	n.a.	8,826	$2,979	n.a.
1981	919	432	n.a.	n.a.	919	432	$151
1982	1,052	749	n.a.	n.a.	1,052	749	492
1983	2,363	813	n.a.	n.a.	2,363	813	403
1984	3,685	493	n.a.	n.a.	3,685	493	14
1985	3,322	780	48	$150	3,370	930	705
1986	3,045	760	34	180	3,079	940	443
1987	3,912	1,453	34	761	3,946	2,214	463
1988	4,236	2,576	32	667	4,268	3,243	-287
1989	5,638	1,941	50	919	5,688	2,860	-286
1990	5,902	2,585	37	193	5,939	2,778	1,124
1991	4,141	3,164	71	1,175	4,212	4,339	2,202
Cumulative	47,041	18,725	306	4,046	47,347	22,771	n.a.

*Long-term capital flow (net) on a balance of payments basis.

Source: Ministry of Finance and Bank of Japan

investment transactions by foreigners also hit a new high in FY 1991 of $2.2 billion, according to balance of payments data collected by the Bank of Japan. In terms of the total number of cases, however, FY 1991's tally of 4,212 was the lowest in four years. The record value combined with the sparser number of transactions yielded an all-time-high average investment value of just over $1 million. The average value of an investment can fluctuate widely from year to year. Since FY 1987, for example, it tracked from $561,075 to $759,841 in FY 1988 but then fell to $502,813 in FY 1989 and subsequently to $467,756 in FY 1990 before shooting up to FY 1991's $1,030,152 level. This zigzag underscores the fact that the aggregate figures are influenced easily by a few large deals.

The preferred financing vehicle continued to be equity inflows, accounting for 98.3 percent of all cases and 72.9 percent of the total value of direct investment. Debt financing, while still small from an overall standpoint, leapt forward in FY 1991, nearly doubling in number and rising sixfold in value.

The influence of a few large deals shows more clearly when foreign investment is broken down by country of origin (see Table 2). American investors, for example, made fewer new investments or acquisitions in FY 1991 than the year before (538 versus 672), but the value of these transactions more than doubled from $664 million to $1.3 billion. While this hiked the U.S. share of FY 1991 foreign direct investment to 30.7 percent, the American number still was well below past marks, which have ranged from 40 to 50 percent. The other big gainers included Canada and the United Kingdom. Investments by the Japanese subsidiaries of foreign firms also surged in FY 1991, both in terms of numbers and value.

The manufacturing sector apparently lost some of its shine in FY 1991, attracting 17.9 percent fewer investments than the year before (see Table 3). While the number of transactions was down, however, the value of foreign investment in manufacturing rose 20.8 percent. More significantly, the manufacturing sector declined in importance relative to the nonmanufacturing sector, with the FY 1991

Table 2: **Foreign Direct Investment in Japan by Country, FY 1990-FY 1991***

(in millions of dollars)

	FY 1990			FY 1991			Cumulative March 31, 1992		
	Cases	Value	Share	Cases	Value	Share	Cases	Value	Share
United States	672	$664	23.9%	538	$1,334	30.7%	8,891	$9,907	43.5%
Canada	53	142	5.1	38	764	17.6	763	1,093	4.8
Netherlands	729	734	26.4	431	323	7.5	3,293	1,787	7.8
Switzerland	364	142	5.1	225	176	4.1	2,867	1,334	5.9
West Germany	345	259	9.3	191	172	4.0	2,564	1,122	4.9
United Kingdom	507	54	1.9	425	431	9.9	4,158	1,083	4.8
France	428	74	2.7	310	51	1.2	2,741	352	1.5
Other Europe	206	98	3.5	190	195	4.5	2,174	670	2.9
Hong Kong	384	62	2.2	227	60	1.4	4,622	575	2.5
Japan**	389	231	8.3	899	639	14.7	4,679	2,721	12.0
Other	1,852	317	11.4	738	193	4.5	10,595	2,127	9.3
Total	5,939	2,778	100.0	4,212	4,339	100.0	47,347	22,771	100.0

*Approval basis. Data exclude disinvestments.
**Investments by Japanese firms with significant foreign participation.

Source: Ministry of Finance

Table 3: **Foreign Direct Investment in Japan by Industry, FY 1990-FY 1991***

(in millions of dollars)

	FY 1990			FY 1991			Cumulative March 31, 1992		
	Cases	Value	Share	Cases	Value	Share	Cases	Value	Share
Manufacturing	2,030	$1,570	56.5%	1,666	$1,896	43.7%	20,450	$13,666	60.0%
Food	74	29	1.0	150	124	2.9	1,354	436	1.9
Textiles	26	18	0.6	4	9	0.2	201	78	0.3
Rubber and Leather	7	1	0.0	6	56	1.3	133	132	0.6
Chemicals	234	438	15.8	120	902	20.8	2,571	4,061	17.8
Petroleum	59	30	1.1	45	173	4.0	569	895	3.9
Nonmetallic Mineral Products	73	6	0.2	132	5	0.1	580	152	0.7
Metals	125	151	5.4	211	79	1.8	1,203	727	3.2
Machinery	886	806	29.0	581	439	10.1	10,855	6,616	29.1
Other	546	92	3.3	417	109	2.5	2,984	569	2.5
Nonmanufacturing	3,909	1,208	43.5	2,546	2,444	56.3	26,897	9,104	40.0
Construction	366	9	0.3	313	23	0.5	1,849	113	0.5
Real Estate	114	24	0.9	33	69	1.6	521	887	3.9
Commerce	2,057	730	26.3	1,315	783	18.1	14,193	3,727	16.4
Services	1,098	263	9.5	685	545	12.6	7,304	1,606	7.1
Transportation	63	12	0.4	63	26	0.6	545	165	0.7
Communications	13	21	0.8	46	99	2.3	159	247	1.1
Banking and Insurance	64	109	3.9	27	890	20.5	338	1,571	6.9
Other	134	40	1.4	64	8	0.2	1,988	788	3.5
Total	5,939	2,778	100.0	4,212	4,339	100.0	47,347	22,771	100.0

*Approval basis. Data exclude disinvestments.

Source: Ministry of Finance

balance shifting from 56.5 percent in manufacturing's favor and 43.5 percent for nonmanufacturing to a near mirror-image balance of 43.7 percent for manufacturing and 56.3 percent for nonmanufacturing. On a cumulative basis, with all investments valued at historical cost, manufacturing retained its dominant position.

These aggregate numbers hide sharp changes in both sectors. Foreign direct investment more than doubled between FY 1990 and FY 1991 in the food, rubber and leather, chemicals, petroleum, construction, real estate, services, transportation, communications and financial industries. Funds flowing into the metals and machinery industries, in contrast, dropped by half or more in FY 1991.

Data combining regional and industry direct investment flows (Table 4) reveal a decided tilt by investors from the Americas and Asia toward nonmanufacturing ventures. Investments by European companies and the Japanese subsidiaries of foreign firms is more balanced between the two major sectors. In FY 1991 the United States accounted for most inward direct investment flows into the machinery and financial industries, whereas Europe was the source of most of the money bolstering the petroleum and commercial industries. Investment in Japan by nations of the Middle

Table 4: Foreign Direct Investment in Japan by Region by Industry, FY 1991*

(in millions of dollars)

	North America		Latin America		Asia		Europe		Japan**	
	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value
Manufacturing	169	$776.4	122	$37.7	155	$8.7	739	$735.7	399	$336.2
Food	11	61.7	17	1.1	17	0.1	83	3.3	13	57.3
Textiles	2	8.5	0	0	2	0.6	0	0	0	0
Rubber and Leather	0	0	0	0	0	0	3	55.5	3	0.1
Chemicals	45	323.7	11	35.3	6	6.8	33	386.4	24	150.1
Petroleum	2	0.1	0	0	3	0.0	14	152.0	25	21.0
Nonmetallic Mineral Products	6	0.0	14	0.7	14	0.1	76	3.1	13	0.7
Metals	26	45.1	21	0.1	21	0.1	116	33.3	12	0.5
Machinery	50	301.0	40	0.5	58	0.2	263	90.7	140	46.6
Other	27	36.4	19	0.1	34	0.8	151	11.5	169	59.8
Nonmanufacturing	407	1,321.5	155	66.8	344	134.0	1,033	612.7	500	303.2
Construction	20	0.5	22	0.9	54	1.4	165	6.3	31	13.3
Real Estate	6	23.7	2	7.1	6	20.3	9	16.4	9	1.2
Commerce	200	139.8	76	34.8	204	86.6	553	450.3	228	68.2
Services	140	277.3	42	1.7	71	10.1	233	40.9	175	214.2
Transportation	2	2.9	9	21.8	5	0.4	39	0.9	1	0.1
Communications	22	47.1	1	0.1	2	12.4	12	36.3	9	3.3
Banking and Insurance	14	829.5	1	0.1	0	0	8	60.1	4	0.4
Other	3	0.6	2	0.4	2	2.8	14	1.5	43	2.6
Total	576	2,097.9	277	104.5	499	142.7	1,772	1,348.3	899	639.3

*Approval basis. Data exclude disinvestments.
**Investments by Japanese firms with significant foreign participation.

Source: Ministry of Finance

East (120 cases worth $1.3 million), Africa (58 cases worth $1.2 million) and Oceania (11 cases worth $3.8 million) continued to be comparatively insignificant. (It should be noted that some investment from the Netherlands, Hong Kong and Latin America represents funds channeled through tax havens from other countries. Middle Eastern investors, therefore, may be investing sizable sums of money in Japan but getting tax benefits by using Panamanian or Dutch financial institutions.)

While FY 1991 was a record-setting year for foreign direct investment in Japan, this inward flow continued to be dwarfed by the Japanese direct investment overseas. (For the most recent figures, see *JEI Report* No. 23B, June 19, 1992.) Since a greater foreign presence in Japan is considered by both Tokyo and its trading partners to be a long-term solution to trade and investment frictions, this disparity remains a source of concern.

Jon Choy

U.S., Japanese Businessmen Air Differences Of Opinion

In July 12-14 discussions in Tokyo top corporate executives from Japan and the United States uncovered significant differences regarding each other's expectations for what their bilateral business forum could achieve. Against the backdrop of this country's worsening deficit with its number-two trading partner, a deficit running at a yearly level of $44.3 billion through the first five months of 1992 in comparison with the $43.4 billion in 1991, American business leaders urged their Japanese counterparts at the 29th annual meeting of the U.S.-Japan and Japan-U.S. Business Councils to take more concrete action to narrow the trade imbalance. For their part Japanese participants focused on long-term or broader macroeconomic issues, such as the global economic situation, the multilateral trading system and the harmonization of corporate management between the world's two leading economies. Gaishi Hiraiwa, chairman of Keidanren (Japan Federation of Economic Organizations), for example, stressed in his keynote speech that Japan must make macroeconomic policy changes, such as those outlined in its new five-year economic plan (see *JEI Report* No. 26B, July 10, 1992), as well as proceed with sectoral solutions to curb the widening transpacific trade imbalance.

In recognition of the U.S. emphasis on improving American access to Japanese markets, particularly in the services sector, the joint closing remarks referred to the potential for unspecified market access issues to disrupt the U.S.-Japan economic relationship. Seconding this perception, TRW Inc.'s Joseph Gorman, the new chairman of the U.S.-Japan Business Council, stressed, "We cannot stay on our current path of rising trade deficits. . . . [Without] significant and measurable actions, [we cannot] achieve a breakthrough."

The two delegations, headed by John Marous, former chairman of Westinghouse Electric Corp., and Eishiro Saito, Keidanren's honorary chairman, backed formation by the councils of bilateral task forces to deal with specific issues where no better mechanism exists. The first step will be to establish a group on the services sector. Other proposed task forces would deal with government procurement and foreign direct investment, if necessary.

Both countries' business leaders disclaimed any preference for managed trade, but they reconfirmed a joint resolution issued by the two councils last February in which Washington was called on to draft an "export vision" and Tokyo an "import vision" (see *JEI Report* No. 8B, February 28, 1992). Mr. Gorman stressed, "The visions rely on government leadership to set exports and imports as national priorities for the United States and Japan." In line with the focus on an export vision for this country both councils agreed to hold a symposium on American exports to Japan in Washington in October. The Department of Commerce has said it will give its full support to the meeting.

The American and Japanese business leaders also discussed international environmental protection issues outside of the formal annual meeting. Unlike more complicated bilateral issues, the global topic drew a shared perception of its importance from corporate executives on both sides of the

Pacific. They agreed to encourage scientific research on environmental issues by each country's government and private sector. Calling the exchange of information on global environmental issues between the two countries an important step, both groups of businessmen acknowledged the necessity of providing people with accurate information and facts on environmental matters. Council members also said they would act as role models on environmental protection.

Tadashi Saito

Miyazawa, LDP Political Prospects Brighten For Upper House Elections

Prime Minister Kiichi Miyazawa, like his predecessor, Toshiki Kaifu, may surprise critics with his political longevity. As politicians of all persuasions geared up for the July 26 upper house elections, the ruling Liberal Democratic Party appeared assured of securing a little more than half of the 127 seats at stake. Mr. Miyazawa, in turn, seemed certain of hanging on to the reins of government — at least until the end of the year, if not for his full two-year term. This represents an important turnaround for a leader who, although skilled in diplomacy, seemed to encounter one domestic setback after another during his initial months in office (see *JEI Report* No. 10B, March 13, 1992). Some analysts have attributed Mr. Miyazawa's improved fortunes to luck and timing; others have said he shrewdly engaged ruling party politicians not only to unify the party but to forge key alliances with certain of the opposition parties as well. In any event, Mr. Miyazawa and his LDP colleagues appeared to be on much sounder political footing than many had expected as they faced the first national election since the prime minister won office in late October 1991.

The upper house elections are important for the LDP; the vote is the first nationwide opportunity for the ruling party to begin to rectify the damage incurred three years ago when voters denied to the LDP for the first time its majority in the upper house. The electorate used the July 1989 upper house elections to express via the ballot box its disaffection with the ruling party's brand of "money politics," as exemplified by the Recruit Co., Ltd. influence-peddling scandal. Also factoring in were voter irritation at the LDP government's June 1988 decision to liberalize beef and orange imports and the April 1989 implementation of a 3 percent consumption tax (see *JEI Report* No. 32A, August 18, 1989). Losing control of the House of Councillors has forced the LDP to form issue-specific coalitions with certain opposition parties (usually Komeito and the Democratic Socialist Party, the two centrist opposition parties) in order to enact key, nonmoney legislation. As was apparent by the protracted nature of the LDP's dealings with Komeito and the DSP to secure enactment of a bill that authorizes the overseas dispatch of Self-Defense Forces for United Nations-sponsored peacekeeping operations, coalition-building has proved difficult and has not lent itself to expeditious policymaking (see *JEI Report* No. 23B, June 19, 1992).

LDP Vice President Shin Kanemaru kicked off the campaign season July 8 by declaring that the ruling party wants to "stabilize" Japanese politics by narrowing the gap between the LDP and the opposition parties in the upper house. Half of the 252 seats in the House of Councillors are chosen every three years; this year, though, 127 seats are being contested because of former upper house president Yoshihiko Tsuchiya's successful run last month for governor of Saitama prefecture. The LDP now holds 116 upper house seats, of which 77 are up for reelection. To reclaim control of this chamber the LDP needs to add 88 seats to the 39 not up for election. This is impossible since the ruling party is fielding only 82 candidates (see Table). Most political experts also doubt that all 77 LDP incumbents can win. The largest number of seats the ruling party has ever won in an upper house election is 72, a goal the LDP achieved six years ago when both houses were dissolved for elections. Ruling party officials therefore have set a more modest — but, they say, achievable — goal of winning 64 seats.

Although securing 64 seats would lower the LDP's total representation in the upper house to only 103, such an outcome, LDP strategists contend, would allow the party to declare itself well on the way to regaining control of this chamber in the 1995 contests. It also would represent the public's

Upper House Candidates By Party

	Seats Contested		Seats Not Contested
Liberal Democratic Party	82	(77)	39
Social Democratic Party of Japan	43	(22)	47
Komeito	23	(10)	10
Japan Communist Party	71	(9)	5
Rengo	22	(1)	12
Democratic Socialist Party	20	(5)	3
United Social Democratic Party	9	(–)	1
Minor Parties	332	(–)	3
Independents	39	(3)	5
Total	641	(127)	125

Note: Incumbents shown in parentheses.

endorsement of the U.N. peacekeeping support bill, these analysts say. Opinion polls present differing pictures as to how solidly the Japanese public endorses the concept of dispatching Japanese military personnel abroad. A recent Kyodo News Service poll revealed that about 70 percent of the respondents plan to take into consideration the Diet's action on the peacekeeping support bill when they go to the polls. Moreover, 53 percent said they were against the legislation, with only 44 percent expressing support.

As expected, the Social Democratic Party of Japan has made enactment of the peacekeeping support bill the central election issue. The SDPJ, the Japan Communist Party and other opponents of the bill are hoping to draw support away from the LDP by tapping into still strong pacifist sentiments at the grass roots in the belief that many Japanese agree that the bill exceeds the limits of Japan's "peace constitution." Judging by SDPJ chairman Makoto Tanabe's remark that "political reform never will be achieved under the Miyazawa cabinet," the Socialists also may try to rekindle voter's negative feelings toward the ruling party as a result of the Recruit affair as well as a more recent scandal involving Mr. Miyazawa's association with Fumio Abe, a former faction member who was arrested on bribery charges (see *JEI Report* No. 7B, February 21, 1992).

The opposition parties, however, do not have a pristine image among voters either. Some political commentators have discounted polls on the peacekeeping bill's lack of support by pointing out that the televised SDPJ-led filibuster tactics during Diet debate on the legislation hurt the SDPJ's efforts to cultivate an image of a party providing a credible leadership alternative. Also, during an economic downturn, such as the one currently affecting Japan, voters in the past have been uneasy about giving a stronger hand to opposition groups, which have yet to offer a comprehensive plan that can match or exceed the LDP-led government's postwar management of the economy. The Japanese public, therefore, tends to stick with the LDP.

Mr. Miyazawa will be the leading beneficiary of a strong showing by the ruling party in the July 26 contests. Some observers contend that the LDP's success in securing the "magic" 64 seats could assure the prime minister an uninterrupted two-year tenure. This certainly is not how the picture appeared earlier this year. Back-to-back defeats of LDP candidates in upper house by-elections early this year cast doubt on Mr. Miyazawa's tenure (see *JEI Report* No. 7B, February 21, 1992). Last March some pundits declared that Mr. Miyazawa's days at the helm were numbered due to the Abe scandal as well as to the prime minister's inability to affect timely Diet action on the FY 1992 budget and other important legislation.

By early July, however, the former finance minister and leader of the third-largest LDP faction had regained some political strength. His stewardship through the Diet of the peacekeeping support bill did much to bolster his standing within the LDP and with the public. Kyodo News Service opinion polls show a progressive improvement in public support for Mr. Miyazawa and his cabinet. Only 24 percent of the respondents backed the prime minister when they were polled in March; this figure rallied to 33 percent following Diet enactment of the peacekeeping support bill. Mr. Miyazawa's participation at the July 6-8 summit in Munich, Germany of the world's seven major industrial democracies and, particularly, his success in securing language in the political communique that urged resolution of Tokyo's long-standing dispute with Moscow over a joint claim to four islands north of Hokkaido burnished his image as a global leader.

Political commentators also point out that Mr. Miyazawa's decision to involve in the party leadership structure some key members of the largest LDP faction, named for former Prime Minister Noboru Takeshita, helped him to rebound. In January he appointed Mr. Kanemaru LDP vice president. Not long after that he made Sieroku Kajiyama chairman of the Diet Affairs Committee, a key post managing relations with the opposition parties; in so doing Mr. Miyazawa replaced a member of his own faction. Some analaysts maintain that Mr. Kajiyama's behind-the-scenes work was responsible for forging a LDP/Komeito/DSP agreement on the peacekeeping support bill. The fact that two potential contenders for the prime ministerial post, Foreign Minister Michio Watanabe and former LDP secretary general Ichiro Ozawa, for all intents and purposes are out of the running due to health problems also no doubt has played in Mr. Miyazawa's favor. This is not to suggest that Mr. Miyazawa has completely turned the corner. Should the LDP not fare as well as anticipated in the July 26 elections, the prime minister may not even make it to his one-year anniversary.

Barbara Wanner

Presidential Politics: Perot, Platforms and Protectionism

Political pundits have been scrambling to assess the impact of events surrounding the Democratic National Convention in New York City July 13-16. The week started with Democrats expecting a three-way race for the presidency, pitting the Democratic and Republican candidates against billionaire independent Ross Perot, who had yet to formally announce his candidacy. One of the Democrats' first actions was to adopt a platform that stepped away from the party's traditional stance in some areas. Some analysts have suggested that Mr. Perot's appeal to alienated voters across the nation influenced the platform, which already was headed for a change due to the efforts of Arkansas Gov. Bill Clinton. But before Gov. Clinton formally could accept his party's nomination July 16, Mr. Perot once again changed the course of the campaign by announcing the end of his undeclared presidential bid.

The Texas businessman's pullout, which he said was based on the conclusion that he could not win in November, left his supporters casting about for a substitute. The two major party candidates immediately set out to woo the disaffected group that had propelled Mr. Perot into the lead in national polls this spring. While Democrats and Republicans debated over which faction stood to gain from Mr. Perot's departure, other observers pondered the impact on campaign issues. Some analysts had speculated that Mr. Perot's popularity would pressure his opponents to conform to his line on trade and other topics. Uncertainty often surrounded Mr. Perot's stand on key issues, but many political analysts noted that there was little doubt about his tough tack on trade. Moreover, Japan often was the target of his comments.

Although he has refuted a protectionist label, Mr. Perot told a *Los Angeles Times* reporter this spring that, if elected, his administration would force "the Japanese to say, 'We'll take the same deal on cars we've given you.'" Comments from Perot campaign representatives indicated that the object of his policy was the proverbial "level playing field" but that the likely outcome would be far fewer Japanese imports entering the United States.